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NABE Industry Survey

April, 1989

This analysis presents the results of the latest survey of business conditions reported by members of the National Association of Business Economists at their individual companies. The survey was taken in mid-March, 1989 and is being reported in April 1989. The Industrial Outlook Survey is one of three regular inquiries taken by NABE; the other two are the Policy Survey and the Macroeconomic Forecast Survey.

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Current Highlights

* For all industries unit demand continued to grow at about the same solid pace as in the prior quarter. This apparent stability, however, masked resurgences in the Goods Producing and TUC industries, and a sharp deceleration in Retail/Wholesale Trade.

* Capital spending soared during the first quarter. Nearly 50% of all participating firms reported increases while only 8% showed declines. Of the manufacturers who responded nearly 65% reported rising fixed investment and the ratio of rising to falling was better than 10 to 1.

* The pace of export growth eased a little during the first period, but it remains a powerful source of expansion.

* There is still no evidence that inventories pose a threat to the current expansion.

* Employment continued to accelerate in the first period.

* No evidence yet that inflationary pressures are easing. Prices and costs both surged in Q1.

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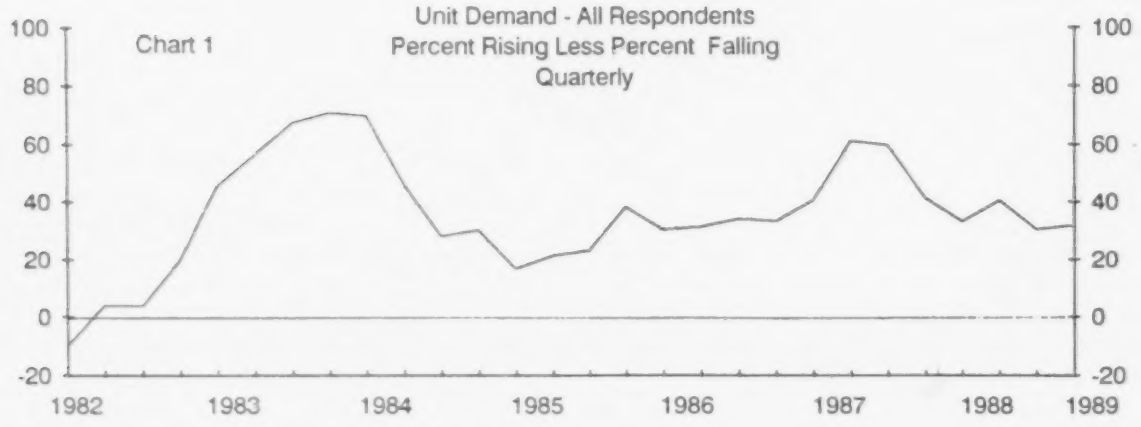
Unit Demand

Demand continued to rise in the first quarter at about the same overall pace as in the previous period, but there were significant differences among the sectors. Of all respondents, 50.0% reported rising unit demand, up slightly from 47.2% last time. Demand fell at 18.3% of our panelist's firms, up from 16.9% in Q4, 1988. The Net Rising Index (percent rising minus percent falling) rose slightly to 31.7% from 30.3%. Chart 1 reveals that this net rising measure has tended to flatten out in recent quarters in the plus 30 to 40% range.

The net rising index remained positive across all industry groups, and while there was very little change from the prior quarter for the total sample there was significant action among the sectors (See Table). Demand growth decelerated sharply in the Retail and Wholesale Trade group as it accelerated elsewhere. Goods producers (manufacturing, mining, forestry and construction) saw the biggest demand surge, and also saw a five quarter downward trend reversed, or at least interrupted. See Chart 2. Transportation, utilities and communications (TVC) demand growth also took a major jump.

	Percent of Total Sample Reporting that Demand is:			Net
Survey Month	Rising	Staying the Same	Falling	Rising
Mar. '89	50.0%	31.7%	18.3%	31.7%
Dec. '88	47.2	35.9	16.9	30.3
Sep. '88	52.1	36.2	11.7	40.4

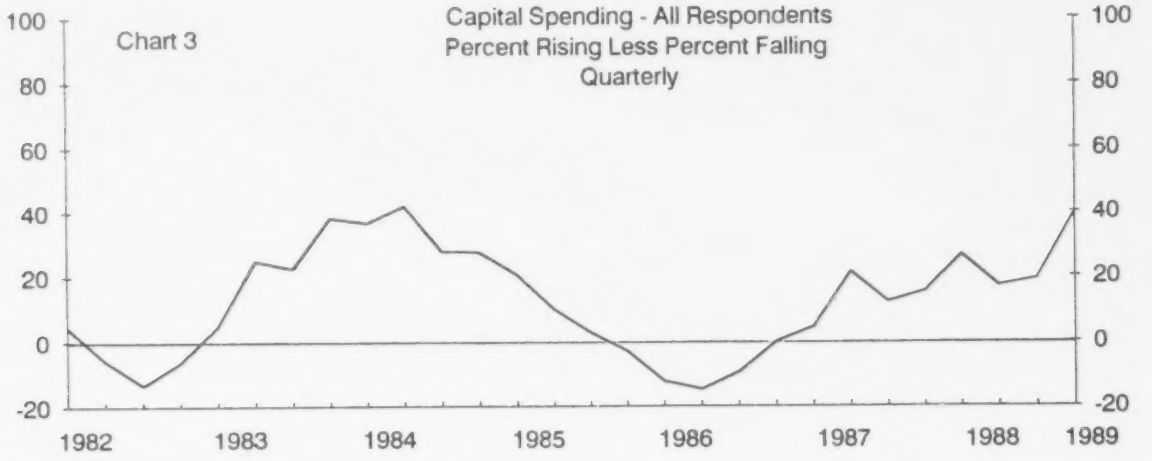
	Percent Reporting that Demand is:			Net
Sector	Rising	Staying the Same	Falling	Rising
Total	50.0%	31.7%	18.3%	31.7%
Goods-Producing	55.8	32.6	11.6	44.2
Trade	33.3	50.0	16.7	16.7
TUC	60.7	25.0	14.3	46.4
Financial Serv.	40.0	33.3	16.7	13.3



Capital Spending

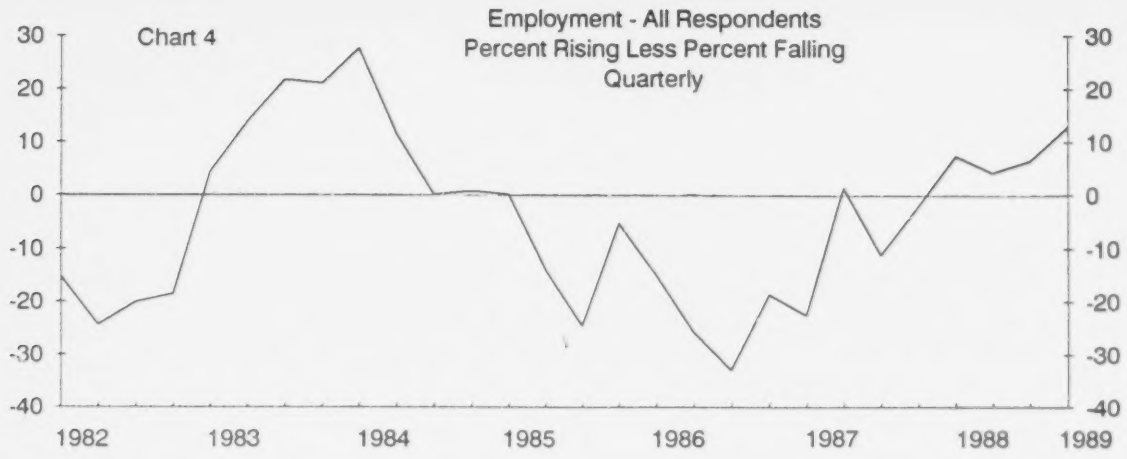
Capital spending leapt ahead during the past three months. Nearly half of our respondents reported increased expenditures while only 8% showed declines. The net rising index more than doubled to 39.8%. Both the total rising and net rising percentages reached the second highest levels in the history of the survey. (Q3, 1984 keeps those records for now) See Chart 3. Nearly 65% of manufacturers reported increased capital spending. Less than 6% said it declined.

	Percent Reporting that Real Capital Spending is:			Net
Survey Month	Rising	Staying the Same	Falling	Rising
Mar. '89	47.8%	44.2%	8.0%	39.8%
Dec. '88	34.6	50.0	15.4	19.2
Sep. '88	31.8	53.4	14.8	17.0



Employment

Employment accelerated again in the first quarter according to our panelists. While most companies (58.4%) are still reporting stable employment levels, more than a quarter (27.2%) said that employment was on the increase. The net rising index (percent rising minus percent falling) doubled to 12.8% this quarter, the highest level since Q2, 1984. See Chart 4.



Inventories

Satisfaction with current inventory levels was virtually unchanged in the latest survey. Of all our respondents 55.6% said that stock levels were "about right". This compares with 55.4% in the previous survey. Of those who were dissatisfied 25.4% said inventories were too high while 19.0% said they were too low. Chart 5 shows that goods producers switched to a slight inventory build position during the past quarter. The net rising index moved from -5.2% to +5.1%. Overall, inventory policies and stock levels themselves remain quite stable.

Export Performance

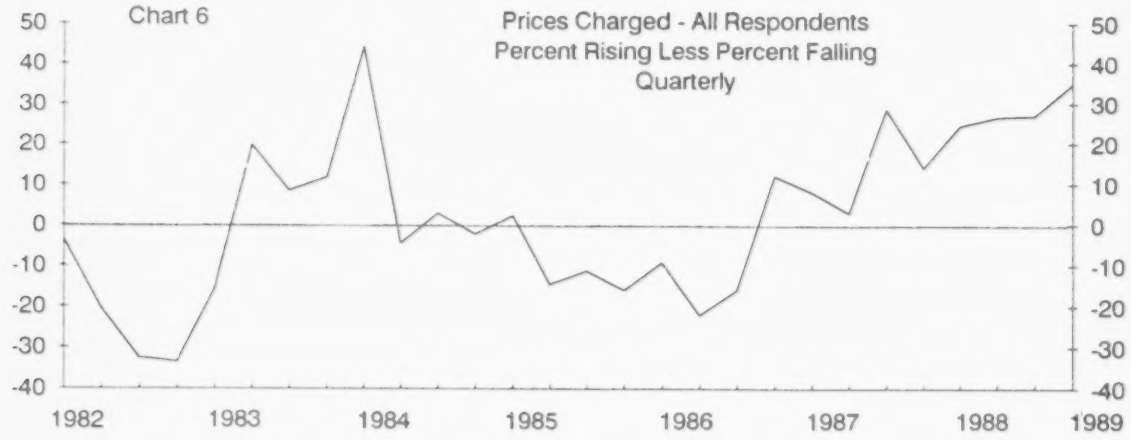
Export business eased slightly during the last 3 months but remained a clear source of econimic strength. Nearly two-thirds of responding members report rising exports, and almost half of this group say that business is accelerating.

Survey Month	Percentage of Exporters Whose Exports are: Rising	Staying the Same	Falling	Net Rising
Mar. '89	62.0%	30.0%	8.0%	54.0%
Dec. '88	64.2	34.0	1.9	62.3
Sep. '88	57.5	40.0	2.5	55.0

Prices and Costs

Prices charged by our respondents' companies accelerated again in the first quarter. The net rising percent is now at its highest level since Q2, 1984 as well as being at its second highest level in the survey's history. See chart 6. What's more, over 70% of those who said their prices were rising noted an acceleration in the rate of increase during the first quarter.

Survey Month	Percentage Reporting Their Prices are: Increasing	Unchanged	Falling	Net Rising
Mar. '89	46.0%	42.9%	11.1%	34.9%
Dec. '88	36.9	53.2	9.9	27.0
Sep. '88	37.8	51.0	11.2	26.6



Costs escalated sharply again in 1989's first quarter. More than 70% of our survey sample reported rising prices of input mateials. The net rising index jumped nine points to 69.0% another new record for the year. Wages and salaries are now increasing at more than half of our respondent's firms. The net rising index rose to over 54% for the first time in the seven year history of the survey. This is the second new survey record in a row for this series. See Chart 7.

Survey Month	Percent Reporting that Material Costs are: Rising	Unchanged	Falling	Net Rising
Mar. '89	71.3%	26.4%	2.3%	69.0%
Dec. '88	64.9	29.9	5.2	59.7
Sep. '88	59.7	33.9	6.5	53.2

Survey Month	Percent Reporting Wages & Salaries: Rising	Unchanged	Falling	Net Rising
Mar. '89	55.7%	42.6%	1.6%	54.1%
Dec. '88	48.6	50.0	1.4	47.2
Sep. '88	33.3	64.5	2.2	31.1

Shortages

Availability of factor inputs eased slightly in the last period, but almost half of our respondents are still experiencing shortages of one sort or another. The most often mentioned problem continues to be skilled labor.

	Percent Reporting Shortages in Survey Month:			
Type of input	June	Sept.	Dec.	Mar.
Skilled Labor	25.9%	32.6%	28.4%	31.0%
Unskilled Labor	11.2	11.6	12.1	9.7
Intermediate Inputs	14.7	10.5	13.8	12.4
Raw Material Inputs	8.6	10.5	8.6	9.7
Capital Goods	5.2	5.8	4.3	2.7
No Shortages	56.0	48.8	50.9	52.2

Profits

Profitability remains a stable and positive force, although our net rising index has tended to erode ever so slightly during the past three quarters. See Chart 8. Goods producers have experienced the weakest profit growth. Their net rising percent has been zero or negative for the last three periods in a row. See Chart 9. The Retail and Wholesale Trade sector has been the strongest performer during the same period.

	Percent of all Respondents Reporting that Margins are:			
Survey Month	Rising	Unchanged	Falling	Net Rising
Mar. '89	31.1%	45.9%	23.0%	8.2%
Dec. '88	34.3	40.1	25.5	8.8
Sept. '88	31.2	47.3	21.5	9.7

	Percent Reporting that Profit Margins are:			
Sector	Rising	Unchanged	Falling	Net Rising
Total	31.1%	45.9%	23.0%	8.2%
Goods-Producing	24.4	43.9	31.7	-7.3
Trade	50.0	50.0	-0-	50.0
TUC	25.0	53.6	21.4	3.6
Financial Serv.	40.0	40.0	20.0	20.0

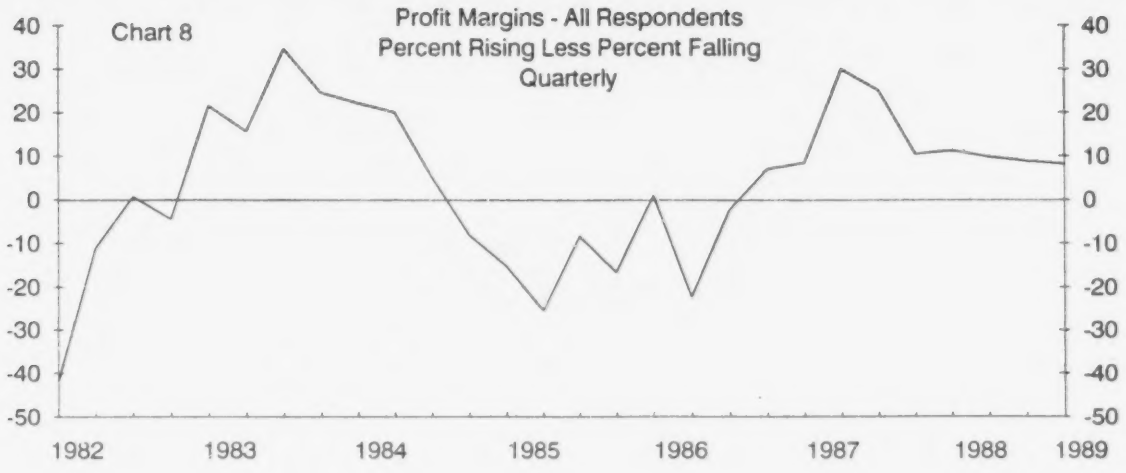


Chart 8
Profit Margins - All Respondents
Percent Rising Less Percent Falling
Quarterly
40
30
20
10
0
-10
-20
-30
-40
-50
1982
1983
1984
1985
1986
1987
1988
1989

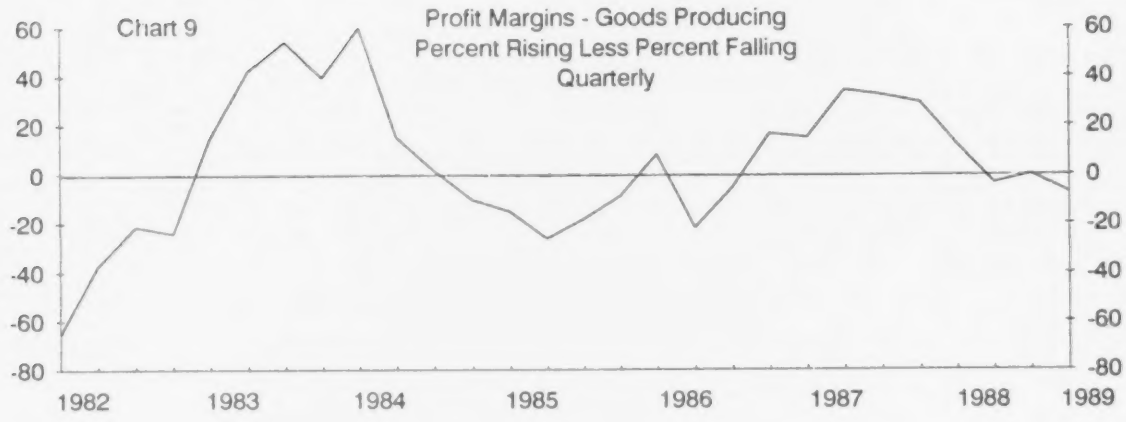


Chart 9
Profit Margins - Goods Producing
Percent Rising Less Percent Falling
Quarterly
60
40
20
0
-20
-40
-60
-80
1982
1983
1984
1985
1986
1987
1988
1989